

EXAMINATION DIVISION



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STATUTORY AUTHORITY

The Examination Division is responsible for examining, investigating, and supervising over 5,000 licensees and registrants under the following consumer finance statutes:

- the Consumer Financial Services Act;
- the Credit Card Act;
- the Mortgage Brokers, Lenders, and Servicers Licensing Act;
- the Motor Vehicle Sales Finance Act;
- the Regulatory Loan Act;
- the Sale of Checks Act; and
- the Secondary Mortgage Loan Act.

The division examines and supervises non-depository licensees and registrants to ensure that they operate safely, responsibly, and in compliance with applicable law.

The division's other responsibilities include:

- initiating enforcement actions against licensees and registrants based upon the results of the examinations and investigations conducted under the statutes noted above;
- analyzing mandated filings of annual reports and financial statements by non-depository licensees and registrants; and
- assisting with numerous requests made under the Freedom of Information Act for annual reports and financial statements.

EXAMINATION AND SUPERVISION

The division conducted examinations and/or investigations in 1999 under all consumer finance statutes listed above except the Credit Card Act.

With an ever-increasing population of non-depository licensees and registrants to supervise, the division has implemented new methods designed to more efficiently supervise the population. Previously, the division revised its method of conducting examinations and investigations of large, complex financial institutions. In 1999, the division focused on changing its examinations

and investigations of smaller entities. The division wanted to conduct more examinations, yet did not want to compromise the quality of the detailed examination. The result is a condensed exam with a more limited scope.

In 1999 the division continued to utilize off-site examinations to more effectively supervise financial institutions which do not have a physical presence within the state and which had a limited amount of Michigan activity.

ENFORCEMENT ACTIONS

In 1999, the division initiated enforcement actions against 204 licensees and registrants under the Mortgage Brokers, Lenders, and Servicers Licensing Act and the Secondary Mortgage Loan Act for failure to file required annual reports, failure to file required financial statements, and/or failure to pay outstanding invoices. The status of these actions is:

- 127 closed;
- 42 pending; and,
- 35 withdrawn.

As a result of these actions, civil fines of approximately \$91,000 and late penalties of approximately \$257,000 were assessed.

In 1999, the division also took administrative action against nine companies, as a result of examinations and/or investigations. These actions include:

- Placing MCA FINANCIAL CORPORATION and its affiliate companies into a Conservatorship on January 28, 1999, naming B. N. Bahadur, of BBK, Ltd., as Conserva-

tor. MCA Financial Corporation, headquartered in Southfield, Michigan, was a large mortgage broker, lender, and servicer in Michigan and in other states. MCA Financial Corporation's mortgage lending and servicing subsidiaries were registrants under the Mortgage Brokers, Lenders, and Servicers Licensing Act. While the company had earlier ceased brokering and lending activities, the servicing activity and obligations continued. MCA Financial Corporation's handling of the servicing of mortgage and land contract accounts prompted the commissioner's action.

- Suspending the mortgage broker and lender license of PYRAMID MORTGAGE, INC. (d/b/a Gold Mortgage), Dearborn, Michigan, on October 20, 1999. A Consent Order resolving the matter was issued January 12, 2000. The commissioner ordered Pyramid Mortgage, Inc. to pay a civil fine in the amount of \$5,000 and revoked its mortgage broker and lender license. Also, Pyramid Mortgage, Inc. agreed not to apply for any financial lending license issued by the FIB for two and one half years.
- Suspending the mortgage broker and lender license of QUALITY MORTGAGE CORPORATION, Utica, Michigan, on November 22, 1999, and issuing a Cease and Desist Order against its officers, directors, employees, and agents, including DENNIS LYSEK. The summary suspension continues pending a hearing. Staff investigators charged that Quality Mortgage Corporation engaged in a pattern of fraud, deceit,

and misrepresentation in connection with its licensed activities under the Mortgage Brokers, Lenders, and Servicers Licensing Act and the Secondary Mortgage Loan Act.

- Suspending the mortgage broker and lender license of FUTURE FINANCIAL SERVICES, INC., Birmingham, Michigan, on December 17, 1999. The license suspension continues pending a hearing. Division staff alleged that illegal stock transfers were made to Brandon Rosenberg and Paul M. Edwards, Jr., neither of whom were licensed by the State of Michigan to operate as mortgage brokers/lenders. Additionally, it is charged that neither Rosenberg nor Edwards could be licensed under the provisions of the Mortgage Brokers, Lenders, and Servicers Licensing Act, because they lack the requisite character and fitness required by the act. Finally, the FIB examination found that the financial accounting records were in "utter disarray and grossly inadequate."
- Suspending the mortgage broker and lender license of OMNI MORTGAGE SERVICES, INC., Dearborn, Michigan, on December 22, 1999. The suspension continues pending a hearing. Division staff alleged that Omni Mortgage Services, Inc. failed to adhere to a consent order signed in May 1999, and that there appeared to be continued violations of the Mortgage Brokers, Lenders, and Servicers Licensing Act.

The year also brought about the culmination of three enforcement actions, com-

menced in earlier years. These actions resulted in:

- OMNI MORTGAGE SERVICES, INC. being ordered to pay a civil fine plus costs of investigation in the amount of \$20,000 to the Financial Institutions Bureau, being ordered to terminate Hassan Chebbani as an employee, and a 30-day suspension of its license.
- ANDREW E. SZEKELY DBA FUNDING ONE admitting violations of the Mortgage Brokers, Lenders, and Servicers Licensing Act.
- AGGRESSIVE MORTGAGE CORPORATION admitting violations of the Mortgage Brokers, Lenders, and Servicers Licensing Act, and agreeing not to apply for any license issued by the FIB for ten years.

Two enforcement actions undertaken in previous years remain in process.

COMMUNICATIONS

The division published two First Mortgage Regulatory Newsletters in 1999. The purpose of the newsletter is to provide a means for informing licensees and registrants under the Mortgage Brokers, Lenders, and Servicers Licensing Act, the Secondary Mortgage Loan Act, and the Consumer Financial Services Act about various problems or issues which have come to our attention through examinations. In this way, licensees and registrants can learn from the mistakes of others and take appropriate action to correct any similar deficiencies noted in their operations. Topics covered in the 1999 newsletters include:

- the examination process—after the exam is over.
- the FIB's new automated phone system.
- acting commissioner appointed.
- administrative actions taken against companies.
- filing your annual report and financial statement.
- forms and dues dates.
- the revision of second mortgage rules.
- content of the annual report and financial statement.
- licenses suspended.
- common reporting errors.

Copies of the newsletters may be obtained from the Bureau's Web site, located at www.cis.state.mi.us/fib.

Y2K

The advance into the year 2000 brought about few Y2K-related problems with licensees and registrants. While the FIB did not anticipate major problems, FIB personnel were available on December 31, 1999 and January 1, 2000 to deal with any problems resulting from the transition into the year 2000.

STAFF TRAINING

The division is committed to maintaining a highly competent examination and office staff. One of the ways the division accomplishes this is through appropriate staff training. Examination staff attended training in areas such as mortgage fraud, federal regulations, team leadership, and management skills.

PROFESSIONAL ORGANIZATIONS

Division personnel take an active role in the regulatory community. Ann Gaultney has served as an officer of the National Association of Consumer Credit Administrators (NACCA) since 1991. In much of 1999, she held the position of First Vice President of NACCA and was responsible for organizing the annual Examiners' School held in East Lansing, Michigan. In October 1999, Ms. Gaultney was elected President of NACCA.

During the year, Ann Gaultney also served on the Board of Directors for the American Association of Residential Mortgage Regulators.

Ann's staff also is involved in spreading the regulatory message. In 1999, her staff gave a presentation for the Michigan Mortgage Brokers Association on examination issues.

INFORMATION ON THE FIB WEB SITE

A wealth of information is available on the Bureau's Web site, www.cis.state.mi.us/fib, including:

- links to consumer finance statutes;
- answers to frequently asked questions;
- policy bulletins;
- newsletters issued by the division;
- press releases; and
- forms for filing annual reports and financial statements.